



## Understanding Personal Property

John Toumey

Assessment Field Representative

September 2010



# Today's Class Will Cover:

---

- Personal Property Basics
- Confidential Information
- Pooling of Assets
- New Personal Property Rule
- Questions & Answers



# **Personal Property General Concepts and Basics**



# General Concepts

---

- Self Assessment System
- Personal Property Defined
- Commonly Used Forms
- Real versus Personal Property
- Amended Returns



# Self Assessment System

---

- Taxpayer is responsible for reporting assessment.
- Assessors do not have the authority to file a return for the taxpayer; however, the assessor can assist the taxpayer.
- The taxpayer MUST sign the return.  
50 IAC 4.2-2-9 (e)



# Personal Property Defined

## 50 IAC 4.2-1-1.1(g)

---

- (g) “Depreciable personal property” means all tangible personal property that is used in a trade or business, used for the production of income, or held as an investment that should be or is subject to depreciation for federal income tax purposes.



# Personal Property Defined

---

- In general, personal property will be deemed to become depreciable property when a depreciation deduction is allowable for federal income tax purposes.
- Inventory is no longer assessable.



# Federal Guidelines on the Depreciation of Assets

---

- “Depreciation may not be claimed until the property is placed in service for either production income or use in a trade or business. Depreciation of an asset ends when the asset is retired from service by sale, exchange, abandonment or destruction.”
- US Master Depreciation Guide, Chapter 3





# Real vs. Personal Property

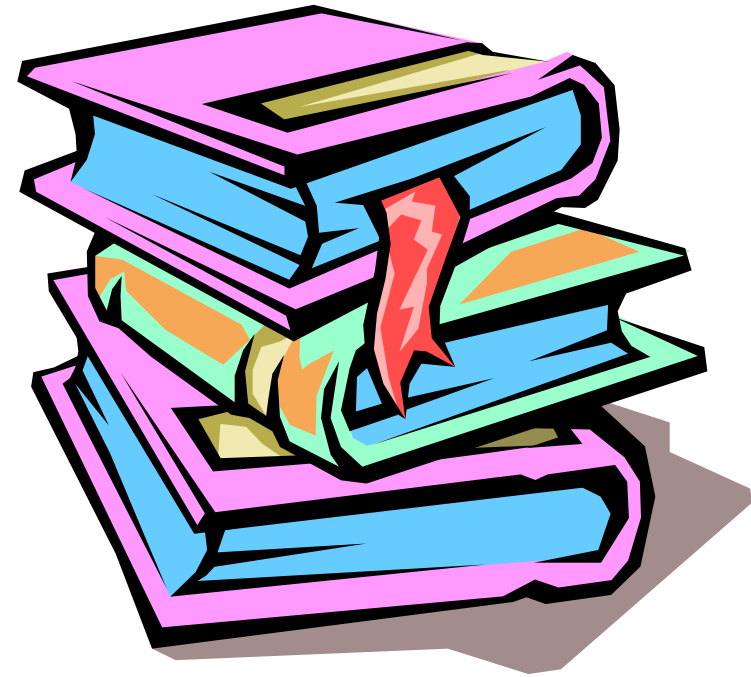
---

- The determination of whether an asset is to be assessed as real or personal property, or as an intangible asset or is subject to excise tax is an important aspect of verifying the correctness of a return.



# Real vs. Personal Property

- “Regulation 16,  
Rule 4” – Section 10  
– (50 IAC 5.2-4-10)
- “2002 Real Property  
Guidelines”  
– Chapter 1, Table 1-1





# Real vs. Personal Property Examples

---

- Boilers:
  - Manufacturing process – Personal
  - Building service – Real
- Foundations for machinery & equipment – Personal
- Gas lines for equipment or processing – Personal



# Real versus Personal Property

## Examples (cont'd)

---

- Lighting:
  - Yard – Personal
  - Special purpose, inside – Personal
- Piping used in a process – Personal
- Pits for equipment or processing
  - Personal
- Power lines and auxiliary equipment
  - Personal



# Filing Requirements

---

- Anyone who owns, controls or possesses personal property with a tax situs within the state must file a return.
- Tax Situs – the actual or assumed location of a property for assessment and taxation purposes\*

\*Property Assessment Valuation, 2<sup>nd</sup> edition, IAAO



# Common Personal Property Forms

---

- Form 102
  - Form 103 Long, Short, & Single Return
  - Form 104
  - Supplemental Forms
- 
- Personal property forms are available on DLGF Web page  
<http://www.in.gov/dlgf/4971.htm>



# Form 102

---

- Form 102 – Farmer's Tangible Personal Property Tax Return
- Is used by farmers to report their tangible depreciable personal property.
- This form is **CONFIDENTIAL**



# Form 103

---

- Three versions:
  - Form 103-Short
  - Form 103-Long
  - Form 103-SR (Single Return)
- All three versions are **Confidential**





# Form 103-Short

---

- Can be used by a taxpayer to report their tangible business personal property if:
  - ✓ the taxpayer is not a manufacturer or processor
  - ✓ the assessment does not exceed \$150,000
  - ✓ the taxpayer is not claiming any exemptions, deductions, or special adjustments.
- The use of this form is an election and not mandatory for all small businesses.
- Taxpayers can file the Form 103-Long one year and file the Form 103-Short the following year if they are eligible.



# Form 103-Long

---

- Filed:
  - ✓ by any business (large or small) including manufacturers or processors
  - ✓ by taxpayers who are claiming exemptions, deductions, or special adjustments
- Taxpayer must file in duplicate when assessed value is greater than \$150,000. Both copies are held at the county level, if need be. IC 6-1.1-3-7 (c)



# Form 103-SR (Single Return)

- Filed:
  - ✓ by any taxpayer with more than one location within a county and less than \$1,500,000 in assessed valuation.
  - ✓ by taxpayers who are not claiming exemptions, deductions, or special adjustments.
- Assessor can refuse to accept if incomplete.  
IC 6-1.1-3-7 (f)



# Supplemental Forms

---

- Examples:
  - Form 103 ERA (tax abatement)
  - Form 103 EL (tax abatement)
  - Form 103-N (not owned/leased)
  - Form 103-O (owned/leased)
  - Form 103-T (special tooling)
  - Form 103-P (pollution control)
  - Form 106 (schedule of adjustments)



# Form 103 ERA / Form 103 EL

---

- Both of these forms are only used when taxpayer has been granted a personal property tax abatement.
- These forms will be further discussed during the “Understanding PP abatement class”.



# Form 103-N & Form 103-O

---

- IC 6-1.1-2-4
- The owner of any tangible property on assessment date is liable for taxes.
- A person owning , holding , possessing, or controlling any tangible property is liable for taxes unless they establish the property is being assessed in the name of owner.



# Operating Leases

---

- Operating leases remain the property of the leasing company at end of the lease.
- ✓ Lessee (Possessor) Must File  
Form 103-N Schedule 1
- ✓ Lessor (Owner) Must File  
Form 103-O Schedule 1



# Capital Leases

---

- Title to asset will transfer at end of lease or the lease contains a purchase option and title can transfer at end of lease.
- ✓ Lessee (Possessor) Must File  
Form 103-N Schedule 2
- ✓ Lessor (Owner) Must File  
Form 103-O Schedule 2





# Assessor Duties

---

- Furnish Forms (Order the forms, pay for the printing costs, & make forms available to the taxpayer.)
- Review Returns & Verify Accuracy
- Notify Taxpayer of Changes in Assessment on Form 113/PP
- Pick Up Omitted and Undervalued Assessments
- Process Requests for Filing Extension



# Filing Extension

## IC 6-1.1-3-7 (b)

---

- The township assessor or the county assessor may grant up to a 30 day extension to file a return (up to June 14)
- The taxpayer must provide a written request for extension on or before May 15 to the assessor.



# Filing Extension

---

- The assessor must provide a written response granting or denying the taxpayer's request.
- If denying the request, do not delay in notifying the taxpayer.
- The decision to deny this request cannot be appealed.



# Omitted & Undervalued Assessments

---

- The assessor shall examine and verify the accuracy of each personal property return to ensure that no property has been omitted or undervalued.

IC 6-1.1-3-14



# Omitted & Undervalued Assessments

---

- Upon discovery, the assessing official shall assess the omitted or undervalued personal property to the person owning, holding, possessing, or controlling that property.



# Omitted & Undervalued Assessments

---

- The assessing official SHALL give the taxpayer written notice of the change and a statement of the taxpayer's right to appeal by use of the Form 113/PP.  
IC 6-1.1-3-20



# Assessment Calendar

---

- The taxpayer files a return by May 15 or the extended due date.
- The township or county assessor has until September 15 or 4 months from the extended due date to make any changes to the assessment.



# Assessment Calendar

---

- The County Board of Appeals (PTABOA) has until October 30 or 5 months from the due date to change an assessment.
- This time limitation applies to the review function of the board and not the appeals function under IC 6-1.1-15.





# Assessment Calendar

---

- Taxpayer has until November 15 or 6 months from the extended due date to amend the original “timely filed” personal property return.
- The assessor has four months and the board has five months from the filing date to review the amended return.



# Budget Calendar

---

- **On or before June 1<sup>st</sup>** – A Township Assessor, if any, shall deliver a list which states the total assessed value of timely filed personal property assessments to the County Assessor.  
IC 6-1.1-3-17 (a)
- **On or before July 1<sup>st</sup>** – A County Assessor shall certify the assessed value for personal property to the County Auditor.  
IC 6-1.1-3-17 (b)



# Budget Calendar

---

- **On or before August 1<sup>st</sup>** - The County Auditor shall provide assessed valuation information to the fiscal officer of each political subdivision of the county and to the Department of Local Government Finance.

IC 6-1.1-17-1



# Comparing the Calendars

---

- As you can see, assessed values can be changed during review process after the June 1<sup>st</sup>, July 1<sup>st</sup>, & August 1<sup>st</sup> dates have passed. This information will be used by the political subdivisions to begin the process to adopt a budget.
- The County Auditor will certify a more accurate number later in the year when tax rates are to be developed.



# Assessment Calendar

---

- IC 6-1.1-9-3 also allows an assessor to make a change to an assessment within three years after the return is filed; however, it requires a full & complete audit of the taxpayer's books in order to determine if substantial compliance guidelines are met so the requirements to change an assessment are more exact.



## IC 6-1.1-16-1

---

- If the assessing official fails to change an assessment within the time prescribed, the assessed value claimed by the taxpayer is final.
- This section of the law is why it is very important for assessing officials to give notice of a change with the proper use of the Form 113/PP.



# Penalties

---

- Return Not Filed by May 15  
(up to June 14 with extension)
  - Penalty = \$ 25
- Return over 30 days late
  - Penalty = \$25 + 20% of taxes due
- Assessors do not have the statutory authority to waive penalties for the late filing of tax returns.



# Penalties

---

- Assessors should be prepared to defend a challenge by the taxpayer that the return was filed timely once the tax statements are mailed.
- Sometimes the date that the taxpayer signed the return indicates a late filing.
- Other times the postmarked envelope should be attached to the form as evidence.
- Many assessors also place the date received on the return.





# Penalties

---

- If May 15 falls on a Saturday, Sunday or Holiday, taxpayers will be allowed to file their personal property returns on the next succeeding business day.
- If the envelope is postmarked on the next succeeding business day, it should be treated as a timely filed return (no matter how long it takes the Post Office to deliver it).



# Reviewing Returns

---

- Many assessors have a standard procedure for conducting desk reviews of personal property tax returns.
- They check for errors in calculations.
- They compare the current year's return to the prior year's return.
- They compare the return with returns filed by similar businesses.



# Reviewing Returns

---

- The assessor reviews any exemptions, adjustments, or deductions claimed to verify that they comply with the rules & regulations.
- A claim for abnormal obsolescence should be checked to see if it complies with 50 IAC 4.2-9. The DLGF also released a memo on this topic on August 21, 2009.



# Reviewing Returns

---

- Review the Form 103-Ns & Form 103-Os
- Since both the owner and the possessor of the property should be filing a form, assessors should verify the information on the forms.
- Sometimes the forms are filed so that neither party is being assessed while other times, the forms are filed so that both parties are being assessed. If fully disclosed by the taxpayers, this error should be discovered and corrected.



# Reviewing Returns

---

- Developing a system to verify that property has been properly assessed to the correct party is a very important part of the review process.
- One system used that seems effective is to copy the Form 103-N or O and to maintain a file. The assessor would then scratch the name of the business off once an assessment is received. After the filing date has passed, the remaining names would require further action (contact them or send an estimated assessment on the Form 113/PP)



# Amended Returns

---

- IC 6-1.1-3-7.5
- The return is filed by the taxpayer.
- The taxpayer files an amended return by writing AMENDED on top of the return.



# Amended Return Deadlines

---

- November 15, if no extension is granted.
- December 14 or 6 months from original return due date, if extension granted.



# Amended Returns

---

- Taxpayer may claim any deduction or exemption that could have been claimed on the original return.
- Taxpayer may only amend the original return one time. The statutes do not allow a taxpayer to amend an amended return.
- Amended return can only be filed when the original return was timely filed (May 15<sup>th</sup> or up to June 14<sup>th</sup> with an approved extension)





# Amended Returns

---

- A timely filed, amended return becomes the taxpayer's assessment of record. The assessor has four months from date that the amended return was filed to change the amended assessment and notify the taxpayer on a Form 113/PP.



# Amended Returns

---

- If a taxpayer files an amended return that is after the statutory deadlines have passed, assessors are strongly encouraged to notify the taxpayer on a Form 113/PP of the defect which the taxpayer could challenge if so desired. Is it required? The issue has not been challenged by an appeal yet.



# Confidential information

---

- IC 6-1.1-35-9 affects:
  - All assessing officials, employees, and anyone under contract to any assessing official
  - All information that is related to earnings, income, profits, losses, or expenditures
- Confidential information; disclosure will result in loss of job.
- What's public information? A/V



# Supplements to Personal Property Form

---

- Any supplemental information or forms attached to a personal property return (Form 102 or 103) that support the return are subject to same confidential standard as the form itself.



# Personal Property

---

- We are going to take a look at how business tangible personal property is pooled into our pooling system.
- The pooling system is found on the Form 103 Long Form, Schedule A.
- There are four (4) separate pools and are established as follows:



# Personal Property

---

- Pool # 1: this pool is for assets with a Federal Tax Life of one (1) to four (4) years.
- Pool # 2: this pool is for assets with a Federal Tax Life of five (5) to eight (8) years.
- Pool # 3: this pool is for assets with a Federal Tax Life of nine (9) to twelve (12) years.
- Pool # 4: this pool is for assets with a Federal Tax Life of thirteen (13) years and longer.



# Pooling of Assets

---

There are four (4) things you need to know and do to pool assets.

1. Identify what is Personal Property
2. Determine the Federal Tax Life
3. Determine the Federal Tax Date of Acquisition
4. Determine the Federal Tax Cost



# Federal Depreciation Schedule

## Joe's Manufacturing Company

Asset Description	Federal Tax Cost	Federal Tax Life	Federal Tax Purchase Date
Press	\$100,000	7	6/2/2008
Conveyor	\$50,000	7	2/23/2007
Delivery Truck	\$45,000	3	4/15/2008
Fork Lift	\$40,000	5	9/30/2005
Cutter Machine	\$65,000	8	12/4/2009
Totals	\$300,000		





# Pooling of Assets

## Identify what is Personal Property

Asset Description	Identify Personal Property	Federal Tax Life	Federal Acquisition Date	Federal Tax Cost
Press	Personal	7	06/02/2008	\$100,000
Conveyor	Personal	7	02/23/2007	\$50,000
Delivery Truck	Excise	3		
Fork Lift	Personal	5	09/30/2005	\$40,000
Cutter Machine	Personal	8	12/04/2009	\$65,000



# Pooling of Assets

- The following is Pool # 2 from Form 103 Long

		Column A	Column B	Column C	
	<b>Pool 2 (5 - 8 Yr Life)</b>	Total Cost	Adjustments	Adjusted Cost	TTV %
19	From To 01-Mar-10				40%
20	02-Mar-09 To 01-Mar-10				40%
21	02-Mar-08 To 01-Mar-09				56%
22	02-Mar-07 To 01-Mar-08				42%
23	02-Mar-06 To 01-Mar-07				32%
24	02-Mar-05 To 01-Mar-06				24%
25	02-Mar-04 To 01-Mar-05				18%
26	Prior To 01-Mar-04				15%
27	Total Pool Number 2				



# Pooling of Assets

Following is the pooling of the depreciable assets that we determined were Personal property in the previous slides.

			Column A	Column B	Column C		Column D
<b>Pool 2 (5 - 8 Yr Life)</b>			Total Cost	Adjustments	Adjusted Cost	TTV %	True Tax Value
From	To	01-Mar-10				40%	
02-Mar-09	To	01-Mar-10	\$65,000	\$0	\$65,000	40%	\$26,000
02-Mar-08	To	01-Mar-09	\$100,000	\$0	\$100,000	56%	\$56,000
02-Mar-07	To	01-Mar-08				42%	
02-Mar-06	To	01-Mar-07	\$50,000	\$0	\$50,000	32%	\$16,000
02-Mar-05	To	01-Mar-06	\$40,000	\$0	\$40,000	24%	\$9,600
02-Mar-04	To	01-Mar-05				18%	
Prior	To	01-Mar-04				15%	
Total Pool Number 2			\$255,000	\$0	\$255,000		\$107,600



# Pooling of Assets

---

- From the pooling of the assets on the previous slide we arrived at a True Tax Value of \$107,600.
- What we have to do next is determine if this is above or below the 30% “Floor”.
- In pooling personal property the taxpayer is not allowed to depreciate their personal property below 30% of adjusted cost in Column C.



# Pooling of Assets

---

- Therefore we are required to take the higher of Column D or 30% of the Adjusted Cost in Column C.
- The adjusted cost in Column C is \$255,000. This value times 30% is \$76,500.
- Our Column D value from Slide # 8 is \$107,600 and our 30% floor from above is \$76,500.
- So the True Tax Value in Column D is the greater of the two which is \$107,600.
- \$107,600 would be the value carried to the front of the Form 103 Long Form and is the amount the taxpayer will pay taxes on.



# Pooling of Assets – FAQ

---

- Taxpayers are not required to explain the changes made on the pooling schedule from the prior year to the current year on Form 106.
- It is not required in the statutes or in our rules and assessors do not have the authority to create this policy in their jurisdictions.
- The assessor may request information from a taxpayer during the review of the current year's return on a case-by-case basis.



# Personal Property

---

- The example that was just presented is a very simplified version of pooling assets and arriving at a True Tax Value for depreciable assets.
- As an assessing official you will not be involved directly with filling out the pooling schedules of taxpayers. However, you may need to review some schedules due to the taxpayer possibly not reporting properly.
- You as assessing officials, have the right to request that taxpayers present you with records to backup the amounts they have reported to you.



# Personal Property

---

- Some of the records you would request are as follows:
- The latest Federal Tax Return
- A detailed Depreciation Schedule
- A Balance Sheet
- General Ledger
- If you make any changes, as a result of this review, you must notify the taxpayer via a Form 113/PP.





# New Personal Property Rule

---

- A new personal property rule will be effective **March 1, 2011**.
- Replaces the old rule that has been used since 1989.
- It is referenced as 50 IAC 4.2
- Link to the new rule:  
<http://www.in.gov/legislative/iac/T00500/A00042.PDF?>



# New Personal Property Rule

---

- Several sections have been repealed / updated in the new rule.
- You will find the new rule has been condensed from 101 to 48 pages.
- More definitions have been added in Rule 1.



# New Personal Property Rule

---

- Section pertaining to valuation of billboards have been eliminated, now will use federal tax cost as the basis in valuing billboards.
- Non-automotive equipment attached to excise tax vehicles will now be assessable as personal property.
- Rule 14 removed the detailed list of NAICS codes, now just reference that the PP return is to include the six digit NAICS code.



# New Personal Property Rule

---

- Rule 2 updated the list of available personal property forms.
- Rule 3, Review Process & Appeal Procedures repealed, replaced with Rule 3.1.
- Rule 11, Deductions & Exemptions for Business Personal Property repealed, replaced with Rule 11.1.



# DLGF Web Page

---

- [www.in.gov/dlgf](http://www.in.gov/dlgf)
- Provides instant access to:
  - DLGF Publications / Memorandums
  - Indiana Codes / Indiana Administrative Codes
  - Tax Rates
  - Forms
  - Contact Information for Local Officials
  - And MORE!



# Continuing Education

---

- The Indiana Property Assessment Continuing Education program has in the past conducted during Jan / Feb each year a class on Personal Property.
- For more information on available courses and to register for them, go to <http://www.ind-pace.com>



# Questions & Answers



# Contact Us

---

- John Toumey
  - Telephone: 317-650-6849
  - E-mail: [jtoumey@dlgf.in.gov](mailto:jtoumey@dlgf.in.gov)
  - Web site: [www.in.gov/dlgf](http://www.in.gov/dlgf)
  - “Contact Us”  
<http://www.in.gov/dlgf/2338.htm>